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Formation of financial resources from external sources for small business entities in the conditions of new Uzbekistan economy: problems and solutions

Kuchkarov Bakhtiyor Khoshimjanovich

Independent researcher, Namangan State Technical University, Uzbekistan

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Abstract: This article thoroughly analyzes the issues of forming financial resources for small business entities from external sources. Small business plays a significant role in the economy of Uzbekistan, accounting for 55-60% of GDP. The article discusses the problems in their development, particularly the difficulties in obtaining credit, resource shortages, and bureaucracy. In addition to traditional sources, modern methods such as investment funds, government grants, and crowdfunding are proposed for forming financial resources. The importance of improving financial literacy, developing cooperation with external sources, and utilizing government programs is emphasized. Furthermore, the "Robotic Financial Assistant" program is suggested to help small businesses analyze financial data and obtain loans. The article presents important solutions that can stimulate the development of small businesses and lead to positive changes in the economy.

Keywords: Small business, financial resources, external sources, credit acquisition, investment, grants, financial literacy, robotic assistant.

Introduction: Small business is one of the important components of Uzbekistan's economy, and its impact on the country's economic landscape is significant. Currently, small businesses account for 55-60% of Uzbekistan's GDP, clearly demonstrating the importance of this sector. The primary tasks of small businesses include creating jobs, fostering economic development, providing local products and services, implementing innovations, and increasing competitiveness. This sector plays a crucial role in developing the local economy, enhancing economic activity, and stimulating overall economic growth in the country. Active participation in the production of local products and the provision of services reduces the need for imports. Small businesses are actively involved in implementing innovations and creating new products, thereby increasing job opportunities and invigorating the market.[3] Additionally, small businesses contribute to ensuring social and economic stability within the local community and strengthen local economic structures. For this reason, small business is considered one of the main pillars of Uzbekistan's economy, and its development positively impacts the country's social and economic progress. [5]

Today, there are over 523,000 small business entities operating in our country. (Table 1) Each year, more than 86,000 new entrepreneurial entities are established, leading to an increase in the number of businesses. However, the number of entities that have ceased operations or terminated their activities is also rising. Several factors may contribute to this, such as financial issues, competition, economic conditions, demand for products and services, management problems, and technological changes.

Table 1

Regional Demography of Small Business Entities in Uzbekistan [19]

No	Region Name	Number of Newly Established	Number of Active Entities	Number of Inactive Entities	Number of Terminated Entities	Total Share of Active Entities in Regions (Percentage)
	Republic of Uzbekistan	**86 030**	**523 556**	**32 415**	**30 229**	**100.00%**
	Of which in regions:					
1	Republic of Karakalpakstan	6 247	22 863	1 143	1 851	4.40%
2	Andijan Region	4 185	39 038	3 128	1 621	7.50%
3	Bukhara Region	5 633	30 082	2 073	2 341	5.70%
4	Jizzakh Region	4 424	22 474	1 777	1 856	4.30%
5	Kashkadarya Region	5 922	36 421	2 564	3 108	7.00%
6	Navoi Region	3 796	22 844	1 153	1 848	4.40%
7	Namangan Region	4 636	32 305	1 293	2 405	6.20%
8	Samarkand Region	7 570	47 943	3 082	3 751	9.20%
9	Surkhandarya Region	3 804	27 368	1 557	1 710	5.20%
10	Syrdarya Region	2 203	15 036	1 172	639	2.90%
11	Tashkent Region	6 940	49 145	4 816	1 538	9.40%
12	Fergana Region	8 036	46 350	2 682	2 260	8.90%
13	Khorezm Region	6 347	25 616	1 891	2 225	4.90%
14	Tashkent City	16 287	106 071	4 084	3 076	20.30%

From the data in Table 1, it can be seen that nearly 11.9% of all small business and private entrepreneurial entities are terminating their activities or have suspended operations due to various problems. As noted above, various economic scholars have thoroughly studied the existing issues affecting the effective continuation of entrepreneurial activities and conducted scientific research addressing their resolution. In this article, we aim to explore the issues related to forming financial resources for small business entities from external sources and managing them effectively.

Every business entity primarily aims to establish operations and manage them efficiently to achieve high income (profit). To achieve this goal, they select a solid business plan and implementation strategies. However, to implement these projects, entrepreneurs require financial resources. There are two traditional sources for forming financial resources. These include internal sources, meaning the entrepreneur's own funds, and external sources, which consist of financial institutions, the state, investors, and other external sources of financial resources. The effective utilization of financial resources and external sources for small business entities is considered a fundamental pillar of economic development.[6] Therefore, research on this topic is of significant importance for enhancing the efficiency of small businesses and ensuring economic stability. We will discuss in detail the formation of financial resources for small business entities from external sources.

Literature Review

The content and essence of the financial resources of small business entities, as well as their formation and management, have been thoroughly studied by various economists. The financial resources of entrepreneurial activities, working capital, the socio-economic essence of entities, and the sources related to their capital formation have been extensively examined in the works of A. Smith, A. Turgot, P. Samuelson, R. Hisrich, and I. Schumpeter. Scholars from CIS countries, such as A.I. Arkhipov, E.F. Borisov, A.V. Busigin, Yu.M. Osipova, M.A. Sazhina, and others, have researched the theoretical and practical problems of financial resources in entrepreneurial activities, their formation, and development.[1]

Additionally, Uzbek scholars, including S.S. Ghulomov, Sh.Sh. Shodmonov, T.T. Jorayev, A.V. Vakhobov, H.P. Abulkasymov, A. Qodirov, Q. Muftaydinov, N.K. Murodova, G.P. Sharipov, M.Yu. Abdulkariimova, and others, have contributed to the development of entrepreneurship through their scientific research on the theoretical aspects and unique characteristics of working capital in Uzbekistan.[6]

METHODOLOGY

This research thoroughly analyzes the issues related to the formation of financial resources for small business entities from external sources. The primary aim of the study is to identify the problems associated with forming financial resources from external sources and managing them effectively for small businesses, as well as to propose solutions. For the research, statistical data, scientific articles, studies, business plans, and financial reports will be utilized. The statistical data is sourced from the State Statistics Committee of the Republic of Uzbekistan, while the literature review encompasses existing scientific studies on the formation of financial resources.

The research employs survey methods, analytical methods, and comparative analysis methods. The survey method will be used to collect data from small business owners and entrepreneurs, while the analytical method will involve analyzing financial data using statistical methods. The comparative analysis method will be applied to compare financial resources obtained from various sources and to determine their effectiveness. The process of summarizing and analyzing research results, identifying problems, and proposing solutions will lead to the main conclusions of the study. In the conclusions phase, insights will be derived regarding the problems and solutions related to the formation of financial resources for small businesses.

The ultimate goal of the research is to provide recommendations for effectively managing financial resources, developing cooperation with external sources, and enhancing financial literacy among small businesses. This methodology has been designed to ensure the effectiveness of the research and to achieve precise conclusions.

Discussion of Key Findings

Small business entities utilize various methods to form financial resources from external sources. Among these methods are investment funds, bank loans, government grants, and other sources. The use of external sources allows businesses to reduce financial risks and enables effective resource allocation. [8]

The issue of financial resources for small businesses and the use of external sources is becoming increasingly relevant in the context of globalization and competitive environments. Today, businesses must learn to effectively develop and manage financial resources to operate successfully in both local and international markets. A lack of financial resources diminishes the competitiveness of small business entities and serves as an obstacle to their sustainable development. Below, we will specifically examine the external sources of financial resources for small business entities.

The types of external sources for forming financial resources are considered one of the key factors for the effective functioning of small businesses. These include bank loans, investments, various grants, emissions, crowdfunding, funds from international financial institutions, and government subsidies.[6]

Bank loans are considered one of the primary and most widely used sources of financial resources for small businesses in our country. Loans provide the necessary funds for the growth and development of businesses. Small businesses are required to meet the demands of banks when applying for loans, which includes presenting their financial history and providing guarantees or collateral. Typically, bank loans come with high interest rates, which can reduce the profitability of the business.

Funds provided by private investors or venture capital funds are also a crucial source for the development of small businesses. Investors aim to achieve their interests through capital injection into the business, which helps support its growth. Acquiring investments allows businesses to implement innovative projects and introduce new technologies. However, obtaining investments may also introduce oversight and demands from investors regarding the business's operations. [14]

Grants are non-repayable funds provided by government agencies or international organizations. They are used to finance social projects and significantly contribute to the development of businesses. Obtaining grants often requires extensive documentation and compliance with various requirements; however, the absence of repayment obligations is crucial for ensuring the financial stability of businesses.

Small businesses can also raise capital through the issuance of stocks or bonds. This method helps expand the financial resources of the business but requires strict regulation and oversight. Funds raised through emissions are used to stimulate the development of the business.

Crowdfunding is a mechanism for collective financing that allows small amounts of money to be gathered from many people via online platforms. This creates new opportunities for small businesses, as it enables testing business activities and promoting them through social media. Funds raised through crowdfunding significantly aid the growth of businesses.[15]

Loans or grants obtained from organizations such as the World Bank and the International Monetary Fund (IMF) provide significant assistance for the development of small businesses. These resources are crucial for stimulating business growth and strengthening the economy.

Government subsidies are a form of financial assistance provided through special programs by the state. They are used to encourage business development, and there is no requirement for repayment. Utilizing subsidies helps enhance the social role and economic impact of businesses.

The funds attracted from these sources can have both positive and negative aspects for small business entities. Below, we have examined these aspects to identify the advantages and disadvantages of each source. Based on this analysis, we have developed optimal recommendations for entrepreneurial entities, which are included in Table 2.

Table 2

Advantages and disadvantages of funding sources for small business entities

No	Type of External Source	Advantages	Disadvantages	Recommendations for Entrepreneurs
1	Bank Loans	• Quick and easy access.	• Interest payments may reduce business income.	If the annual interest rate on borrowed funds is around 10-15%, it is considered safe for the business. The total amount of the loan should not exceed 30% of the annual income.
2	Investments	• Funds do not need to be repaid.	• Requires more control and management.	Funds obtained from investors with a 20-30% dividend-free return are considered safe for business development. The total investment should not exceed 50% of the business's total assets.
3	Grants	• Funds do not need to be repaid.	• There are many documents and requirements to obtain grants.	Grants are non-repayable, making them a safe option. They can constitute up to 100% of the total funding used.
4	Issuance	• Expands capital and attracts many investors.	• Requires strict regulation and oversight.	Funds raised through shares or bonds at an interest rate of 15-20% are considered safe for the financial stability of the business. The raised capital should not exceed 40% of the business's total assets.
5	Crowdfunding	• Easy to collect small amounts of money.	• Requires time and resources to gather funds.	Funds raised through crowdfunding at an interest rate of 5-15% are considered safe for business development. The total amount raised should not exceed 20% of the business's total assets.
6	International Financial Institutions	• Wide-ranging financial assistance.	• Strict conditions and requirements for the funds received.	Loans provided by international financial institutions at an interest rate of 5-10% are considered safe. The total amount should not exceed 30% of the business's total assets.
7	Government Subsidies	• Funds do not need to be repaid.	• Extensive documentation required to obtain subsidies.	Subsidies are non-repayable, making them a safe option. They can constitute up to 50% of the total business expenses.

In our research to study the sources of financial resource formation for entrepreneurial entities in the Namangan region, we collected statistical data, which revealed that entrepreneurial entities primarily form their financial resources through their own funds, bank loans, foreign investment funds, and other non-repayable assistance.

Table 3

Sources of Working Capital Formation for Small Business Entities in Namangan Region (in million soms)

№	Indicator Name	Years				
		2019y	2020y.	2021y.	2022y.	2023y.
1	Government funds	-	-	-	-	-
2	Borrowed funds (bank loans)	1344,3	1545,5	2703,8	2638,3	2114,2
3	Borrowed funds (bank loans)	1220,9	1262,7	1431,4	1477,6	2008,3
4	Foreign investments	2229,5	2987,7	2295,8	2381,5	3995,4
5	Other non-repayable assistance	60	733,4	14,1	682,3	1021,2
6	Other sources	39,8	7,3	2,0	11,5	1110,2

It appears that small business entities are not interested in forming financial resources from sources such as government grants, state funds, and crowdfunding.

Forming financial resources from external sources is not always easy. There are several objective and subjective issues involved. Among the problems faced by small business entities in forming financial resources from external sources are difficulties in obtaining loans, lack of resources, bureaucracy, improper forms of credit policy, the conditions and requirements of external sources, the impact of economic and political stability, and the inefficiency of business models.

Small businesses encounter difficulties in obtaining necessary funds from banks or financial institutions. Banks assess the client's financial history, guarantees, or collateral, and the development of the business when granting loans. Small businesses often cannot meet the requirements necessary for obtaining loans, such as lacking sufficient financial history or credit ratings. Banks are cautious when setting interest rates and repayment terms, which increases the financial pressure on small businesses.

The lack of financial data is also a significant issue for small businesses. Often, businesses cannot accurately assess their financial situation due to insufficient financial reports, statistics, and forecasts. This situation leads to distrust from banks or investors, resulting in decreased opportunities for obtaining loans or attracting investments. The lack of financial data obstructs businesses' effective management of financial resources.

Loans or investments obtained from external financial sources often come with strict conditions and requirements. Banks and investors may require monitoring of the business's progress and adherence to contract terms. These demands can restrict small businesses' operations, reduce flexibility, and limit creative opportunities. The requirements for obtaining grants and subsidies can also hinder businesses' ability to manage resources adequately.

The impact of economic and political stability is particularly significant for small businesses. If there is economic instability, inflation, or political uncertainty in the country, this can reduce the demand for financial resources from businesses. Banks and investors may be cautious in lending due to distrust in economic stability. Political processes, such as tax policies or funding programs, can also create challenges for small businesses in accessing external resources.

At the same time, it is crucial for small businesses to improve financial literacy, utilize qualified consultants, and take advantage of assistance programs provided by the government to address the problems of obtaining financial resources. Effective financial management and strategic planning are necessary tools for small businesses to solve issues related to acquiring and utilizing specialized resources. Addressing these problems plays an important role in promoting the development of small businesses and contributing to economic stability.[15]

Small business entities face numerous challenges when obtaining financial resources. Several effective solutions exist to address these problems, with the main ones including improving financial literacy, developing cooperation with external sources, and leveraging government programs and incentives.

First and foremost, improving financial literacy is of great importance. Financial knowledge and skills are a key factor in the success of small businesses. Enhancing business owners' financial literacy improves their ability to manage financial resources effectively and engage in strategic planning. To achieve this, it is necessary to organize training sessions, seminars, and webinars. Improving financial literacy also enhances the ability of businesses to collaborate effectively with banks, investors, and other financial sources. Therefore, maintaining proper accounting and financial reporting plays a crucial role in accurately assessing the financial situation of the business.

The second solution is to develop cooperation with external sources. Small businesses need to establish close and effective partnerships with banks, venture capital funds, investors, and grant-giving organizations. Providing clear and reliable information in business plans is essential for developing this cooperation. Collaborating with external sources not only helps businesses attract financial resources but also assists in introducing new opportunities and innovations.

The third solution is to utilize government programs and incentives. The assistance programs, grants, and subsidies provided by the government are vital for the development of small businesses. Businesses need to be informed about the changing government programs and incentives and prepare the necessary documentation to benefit from them. This significantly impacts the financial stability and development of businesses.

To resolve the issues faced by small business entities in obtaining financial resources, it is crucial to improve financial literacy, develop cooperation with external sources, and utilize government programs and incentives. Implementing these solutions is essential for ensuring the effective operation of businesses, promoting economic stability, and contributing to social development. Effective management of small businesses and proper handling of financial resources will ensure their development and help them participate successfully in the economy.

Additionally, we propose utilizing modern innovative methods to address the problems that small business entities encounter when forming financial resources from external sources. This involves implementing a "Robotic Financial Assistant" program. In this era of rapid advancement in artificial intelligence across all sectors, we believe that this program will assist small business entities in analyzing financial data, providing advice on loans and investments, and developing financial strategies.

The main functions of the program include financial analysis, loan proposals, and investment suggestions. It enables automatic analysis of the business's financial status, preparation of reports, and assistance to the business owner in making financial decisions. Based on the business's financial data, the program presents the best offers for obtaining loans from banks and financial institutions and helps identify optimal investment options for small businesses. Business owners can interact with the program, asking questions to enhance their financial literacy, testing financial scenarios, and monitoring results in real-time. This also allows businesses to integrate with social media platforms. Furthermore, the program analyzes macroeconomic indicators, helping businesses make strategic decisions based on the economic and political environment.

The "Robotic Financial Assistant" program simplifies access to government programs and grants, significantly aiding small businesses in obtaining financial resources. This program can be offered through financial technology companies or startups on the internet, tailored to various platforms and user requirements. Such programs are often available for use through websites, mobile applications, or software. They can also be developed by universities and research centers.

Thus, the "Robotic Financial Assistant" program could be a revolutionary solution for small businesses addressing the challenges of obtaining financial resources. This innovative approach will significantly impact enhancing financial literacy, ensuring economic stability, and developing effective collaboration with external sources. For small businesses, this program will facilitate the process of acquiring financial resources and support their development, leading to positive changes in the economy.

CONCLUSION

In conclusion, small business entities are an essential component of Uzbekistan's economy, and their development is crucial for ensuring the country's social and economic stability. Facing a range of challenges in forming financial resources from external sources, recommendations have been made to improve financial literacy, develop effective cooperation with external sources, and utilize government programs and incentives as solutions. The "Robotic Financial Assistant" program will assist small businesses in analyzing financial data and obtaining loans and investments. This innovative approach is vital for simplifying the process of acquiring financial resources, ensuring economic stability, and promoting social development. Effective management of small businesses and proper handling of financial resources will ensure their development and help them succeed in the economy. Addressing these challenges will promote the growth of small businesses and yield positive outcomes for the national economy.

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